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REPORT OF THE COMMISSION ON TRANSNATIONAL CORPORATIONS ON ITS NINETEENTH SESSION*

(5-15 April 1993)

SUMMARY

The nineteenth session of the Commission on Transnational Corporations reaffirmed the validity of the Commission as the focal point within the United Nations system for comprehensive intergovernmental consideration of issues concerning foreign direct investment as related to transnational corporations. The need to further reinforce the role of the United Nations system in providing technical cooperation, research, consultative and advisory services, training and information to developing countries was emphasized.

In the 1980s, foreign direct investment experienced an unsurpassed surge owing to the interplay of cyclical, structural and policy-related factors. A decline in world-wide investment flows in 1991 and 1992 is primarily attributed to the slow growth and recession in the developed economies, the end of the mergers-acquisitions boom, and a decline in Japanese investment abroad. Against that backdrop, however, investment flows to developing countries increased as a result of the strong economic performance of countries in Asia and the resurgence of economic growth and the application of a more liberal framework for transnational corporations in Latin America and the Caribbean. Investments in Africa and the least developed countries outside Africa slightly increased but remained low. Central and Eastern Europe continued to attract investments by transnational corporations, although at a slower pace than in previous years. The continuing expansion of regional integration schemes exerted a positive stimulus to international

* The present document is a mimeographed version of the report of the Commission on Transnational Corporations on its nineteenth session. The final report will be issued as Official Records of the Economic and Social Council, 1993, Supplement No. 10 (E/1993/30).

investments. The changing organization of international production had important implications for policies adopted by host countries to attract foreign direct investment.

Topical issues

The Commission addressed, inter alia, emerging issues of privatization and transitional economies as they relate to foreign investment. It requested the Secretary-General to continue to deal with such questions as the interrelationship between foreign direct investment and interregional, regional and subregional economic integration and technical and economic cooperation among developing countries; and the role of transnational corporations in the development of small- and medium-sized enterprises. The importance of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting in contributing to greater transparency in the activities of transnational corporations was reaffirmed. The initiative of the Secretariat to organize a regional conference on foreign direct investment in Africa in the third quarter of 1993 was welcomed.

Priorities for analytical work

The Commission indicated that analytical studies on the global trends of foreign direct investment flows and their impacts on all countries, in particular developing countries, should be a priority. It requested the Secretary-General to prepare reports on the role of foreign direct investment in Africa and the least developed countries, with recommendations on how to improve those flows.

South Africa

The Commission reiterated the urgent need for the removal of the remaining obstacles to the creation of an atmosphere conducive to constitutional negotiations in South Africa, and invited Governments, entrepreneurs and enterprises, including transnational corporations, to give their full support to the end of apartheid.

Future of the Commission

The Commission decided that, at its twentieth session, it would review its future activities and functions in the context of the ongoing restructuring of the United Nations in the economic and social fields, and make appropriate recommendations.

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Chapter I

MATTERS CALLING FOR ACTION BY THE ECONOMIC AND SOCIAL COUNCIL OR BROUGHT TO ITS ATTENTION

A. Draft resolution

1. The Commission on Transnational Corporations recommends to the Economic and Social Council the adoption of the following draft resolution:

Strengthening the role of the Commission on Transnational Corporations*

The Economic and Social Council

1. Takes note of the reports prepared for the Commission on Transnational Corporations at its nineteenth session;

2. Reaffirms the validity of the Commission on Transnational Corporations and the need to further strengthen its role as the focal point within the United Nations system for comprehensive intergovernmental consideration of issues concerning foreign direct investment as related to transnational corporations;

3. Emphasizes the need for the Secretary-General to reinforce the role of the United Nations system, including the joint units established with the regional commissions, in strengthening the capacity of, in particular, developing countries, at their request, in the field of foreign direct investment, by providing technical cooperation, consultative and advisory services, training, research and information to those countries;

4. Requests the Secretary-General, in coordination with multilateral organizations and financial institutions, to give priority to strengthening technical cooperation in order to enhance the capacities of developing countries and other recipient countries to create a favourable investment climate, including in the services sector, in the context of their economic programmes;

5. Invites the Governments of developed countries to increase their activities aimed at assisting, in particular, developing countries, in the development of an environment favourable to foreign investment;

6. Also requests the Secretary-General to give priority to analytical studies, including those on global trends and determinants of foreign direct investment flows as related, inter alia, to transnational corporations and the impact of those trends, flows and stocks on all countries, in particular developing countries;

7. Requests the Secretary-General to submit to the Commission at its twentieth session an analytical and comparative report on the role of foreign direct investment in Africa, with recommendations on ways and means of improving foreign direct investment inflows throughout the African continent;

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* For the discussion, see chap. II.

8. Also requests the Secretary-General to submit to the Commission at its twentieth session an analytical report on the flows of foreign direct investment, paying special attention to the situation of the least developed countries and other developing countries outside Africa, with recommendations on how to improve flows to developing countries;

9. Requests the Secretary-General to take steps to ensure that the work of the United Nations system in the field of transnational corporations and related issues is undertaken in a coordinated manner that avoids duplication of work, and to submit a report to the Commission at its twentieth session on the steps taken;

10. Takes note of the regional conference on foreign investment flows in 1992 in Latin America and welcomes the initiative of the United Nations Secretariat to organize a similar meeting in 1993 in Africa, at the ministerial level;

11. Requests the Secretary-General, with regard to technical cooperation activities, to continue to promote and to provide advice on the interrelationship between foreign direct investment and interregional, regional and subregional economic integration and technical and economic cooperation among developing countries;

12. Requests the Secretary-General to continue activities in matters relating to the role of transnational corporations in the development of small- and medium-sized enterprises;

13. Stresses the importance of participation of foreign direct investment, in particular that of transnational corporations, in privatization processes, and reiterates the invitation to the Secretary-General to enhance studies and technical cooperation programmes in this area, in accordance with Economic and Social Council resolution 1992/36 of 30 July 1992;

14. Takes note of the results of the consultations convened by the President of the General Assembly on the draft code of conduct on transnational corporations from 21 to 23 July 1992;

15. Invites Member States, in particular developed countries, to increase financial support flows for research, advisory and information work as it relates to foreign investment;

16. Takes note of the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, 1/ and decides that consideration of the draft resolutions contained therein 2/ should be deferred to the twentieth session of the Commission, and further reaffirms the importance of the work of the Group in contributing to greater transparency in the activities of transnational corporations;

17. Recognizes the need for the integration of the economies in transition into the world economy through, inter alia, an increase in inflows of foreign direct investment, and recognizes the contribution that the United Nations system can make in this regard, taking into account General Assembly resolutions 47/175 and 47/187, both of 22 December 1992;

1/ E/C.10/1993/12.

2/ Ibid., chap. I, sect. A.

18. Calls upon Member States to exchange information among themselves, their interested private sectors and all competent organs, organizations and bodies of the United Nations system on their activities, programmes and experiences related to the promotion of foreign direct investment, in particular in developing countries;

19. Reiterates the urgent need for the removal of the remaining obstacles to the creation of an atmosphere conducive to constitutional negotiations in South Africa to build upon the significant developments already achieved;

20. Recognizes that some financial institutions are unable to resume their lending activities to South Africa as a result of the inhibiting economic and political difficulties in that country, such as the ongoing violence;

21. Reiterates further its obligations towards the complete eradication of apartheid, reaffirmed in General Assembly resolutions 45/176 A of 19 December 1990, 46/79 A of 13 December 1991 and 47/116 A of 18 December 1992 and in the Declaration on Apartheid and its Destructive Consequences in Southern Africa, contained in the annex to General Assembly resolution S-16/1 of 14 December 1989;

22. Reaffirms that Governments, entrepreneurs and enterprises, including transnational corporations, have contributed to the demise of the apartheid system, and invites them to give their full and concerted support to that end, and to take appropriate measures regarding the vulnerable and critical process currently under way in South Africa, with the aim of achieving the total eradication of the apartheid system and the establishment of a united non-racial and democratic South Africa;

23. Requests the Secretary-General:

(a) In close cooperation with the relevant organs of the United Nations, to continue the work of collecting and disseminating information on the activities of transnational corporations conducting operations in South Africa;

(b) To continue preparing studies on the level, form and responsibilities of the operations of transnational corporations in South Africa, including their non-equity business arrangements and their involvement in particular sectors of the South African economy;

(c) To continue examining possible contributions of transnational corporations to the construction of a united and non-racial democratic South Africa in the economic and social fields, taking into account the special need for the development of human resources, particularly the training of black South African entrepreneurs, and for employment, housing and health;

24. Decides that the Commission should review its future activities at its twentieth session and, if appropriate, make recommendations to the General Assembly, through the Economic and Social Council, in the context of the ongoing restructuring of the United Nations in the economic and social fields;

25. Requests the Secretary-General to report to the Commission at its twentieth session on the implementation of the present resolution.

B. Draft decisions

2. The Commission on Transnational Corporations recommends to the Economic and Social Council the adoption of the following draft decisions:

DRAFT DECISION I

Provisional agenda and documentation for the twentieth session of the Commission on Transnational Corporations

The Economic and Social Council approves the provisional agenda and documentation for the twentieth session of the Commission on Transnational Corporations set out below.

Provisional agenda and documentation for the twentieth session of the Commission on Transnational Corporations

1. Election of officers.

2. Adoption of the agenda and organization of work.

3. Transnational corporations in the world economy and trends in foreign direct investment to developing countries in particular, including the interrelationship of investment, trade, technology and development.

   Reports of the Secretary-General

4. Role of transnational corporations in services.

   Report of the Secretary-General

5. International arrangements and agreements relating to foreign direct investment and transnational corporations, including guidelines and other instruments.

   Presentation by relevant organizations including the OECD

6. Country and regional experiences in attracting foreign direct investment for development.

   Report of the Secretary-General on foreign direct investment in Africa

   Report of the Secretary-General on foreign direct investment flows to the least developed countries and non-African developing countries

   Report of the Secretary-General on exchange of information on foreign direct investment

7. Experience gained in technical cooperation relating to foreign direct investment and transnational corporations.

   Reports of the Secretary-General

8. Implementation of the United Nations programme on transnational corporations and consideration of future activities of the Commission.

Report of the Secretary-General on activities of the programme on transnational corporations, including the activities of the joint units

Report of the Secretary-General on activities of transnational corporations in South Africa

Reports of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eleventh and twelfth sessions

9. Question of expert advisers.

10. Provisional agenda for the twenty-first session of the Commission.

11. Adoption of the report of the Commission on its twentieth session.

DRAFT DECISION II

Follow-up to the United Nations Conference on Environment and Development, as related to transnational corporations*

The Economic and Social Council takes note of the report of the Secretary-General on the follow-up to the United Nations Conference on Environment and Development, as related to transnational corporations, 3/ and requests the Chairman of the Commission on Transnational Corporations to transmit that report to the Commission on Sustainable Development for substantive consideration.

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* For the discussion, see chap. VI.

3/ E/C.10/1993/7.

Chapter II

GENERAL DISCUSSION ON TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY AND TRENDS IN FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES

1. The Commission considered item 3 of its agenda at the 1st to 3rd, 8th, 9th and 11th meetings, on 5, 6, 12, 13 and 15 April 1993. It had before it the following documents:

(a) Report of the Secretary-General on trends in foreign direct investment (E/C.10/1993/2);

(b) Report of the Secretary-General on the growth of foreign direct investment in the 1980s: trend or bulge? (E/C.10/1993/3);

(c) Report of the Secretary-General on the emergence of integrated international production (E/C.10/1993/4);

(d) Report of the Secretary-General on the universe of transnational corporations (E/C.10/1993/11).

2. In his opening statement, the Chief of the Research and Policy Analysis Branch of the Transnational Corporations and Management Division stated that the 1980s, especially the second half of the decade, had been a period of unsurpassed growth of foreign direct investment. He mentioned that in 1991 and perhaps in 1992, there had been a decline in world-wide investment flows for the first time since 1982 and he attributed this to the slow growth and recession in the developed economies, especially in the largest home countries; the end of the mergers-and-acquisitions boom; and the decline in Japanese investments abroad. Against the backdrop of this world-wide decline in investment flows and inflows to developed countries, investment flows to developing countries had increased by 25 per cent in 1991 to reach $36 billion, and in 1992 these might have increased further to some $40 billion. He attributed this development to the strong performance of countries in Asia and the resurgence of economic growth and the more open framework for transnational corporations, including privatization initiatives, in Latin America and the Caribbean. Although investments in Africa had increased, the level remained low and the bulk of those investments were concentrated in countries with natural resource endowments. Foreign direct investment in the least developed countries had also grown marginally but the level remained low - less than a quarter of inflows to Hong Kong. Like the developing countries, Central and Eastern Europe had continued to attract investments by transnational corporations, although at a slower pace in comparison to previous years. The strategies of transnational corporations had stressed the importance of the region from a long-term perspective, given the size of their domestic markets, their proximity to the markets of the European Community and the availability of natural resources. The unprecedented growth of investment flows in the 1980s and their decline in 1991 and 1992 had been attributed to the interplay of cyclical, structural and policy-related factors. The Chief of the Research and Policy Analysis Branch mentioned the ongoing liberalization of foreign-direct-investment and trade regimes, the continuing expansion of regional integration schemes, such as the Single Market in the European Community (and its further expansion to the European Economic Area) and the proposed North American Free Trade Agreement had exerted a positive stimulus to investments by transnational corporations. He cited a number of factors that would encourage a further increase in investment flows by transnational corporations in both equity and non-equity forms: the scope for further liberalization in the regulatory framework for foreign direct

investment in some countries and sectors, particularly in the services area; the increasing maturity of the stock of foreign direct investment, leading to higher capacity for generating future earnings for reinvestment; and the continuous effort by transnational corporations to organize international production in a globally or regionally integrated fashion, facilitated by innovations in information and communications technologies. The changing organization of international production had important implications for policies adopted by countries to attract foreign direct investment. Efforts needed to be focused on higher value-added activities, targeted to specific functions and geared towards non-equity forms, and particular attention should be paid to services. In addition to those national efforts, host countries needed to take a holistic approach in their external economic policies to benefit from the emergence of an integrated international production system.

3. Many delegations from developed and developing countries took note of the decline in world-wide investment flows in 1991 and 1992. While this development had been attributed by a number of delegations from developed and developing countries to cyclical factors associated with the downturn in economic activity, a number of delegations from developed countries emphasized that structural and policy-related factors had also played an important role. A number of delegations from developed countries also drew attention to the combination of those factors in explaining the level of inflows to their countries. In the midst of this slow-down in world-wide investment flows a number of delegations from developed and developing countries reiterated the important role of transnational corporations in the world economy, particularly in the emergence and development of an integrated international production system. A delegation from a developed country stated that such an integrated international production system was not a recent phenomenon.

4. A number of delegations from both developed and developing countries had the positive impression that the level of investment flows to developing countries continued to increase. A delegation from a developing country expressed concern about the implications that the decline in world-wide investment flows had for investments in developing countries. One delegation, speaking on behalf of a number of other delegations, questioned whether the increasing inflows to developing countries represented a long-term tendency. Some delegations expressed optimism that increasing inflows to developing countries and Central and Eastern Europe represented a long-term trend, given the significant improvement in economic indicators in Central and Eastern European countries and the unparalleled privatization processes and investment incentives that were under way in that region. In addition, barriers to cross-border investments were continuing to fall and privatizations were adding new stimuli to the involvement of transnational corporations in developing countries. A number of delegations from developing countries emphasized reforms of policies towards liberalization in an increasing number of countries, combined with regional and subregional economic integration programmes, as additional contributory factors to the sustained investment flows necessary for growth, technological modernization and increased participation of developing countries in the world economy. However, a number of delegations from developing countries and Central and Eastern Europe stated that the vigorous pursuit of policies of liberalization and privatization by their countries had in some cases incurred high social and political costs and their modernization programmes had remained stalled due to lack of capital and technological know-how. Nevertheless, these delegations looked towards increased cooperation with transnational corporations. Several delegations from developing countries and one delegation from a developed country expressed concern whether foreign direct investment in Central and Eastern Europe might affect investments in developing countries, through investment diversion or diminution.

5. Many delegations from both developed and developing countries expressed concern that, despite the increasing inflows of foreign direct investment to developing countries, those inflows remained low by comparison to that in developed countries and remained highly concentrated in a small number of developing countries. Many delegations from developing countries expressed concern that Africa and the least developed countries continued to receive a meagre proportion of world-wide inflows of foreign direct investment and thus remain marginalized to the global economic mainstream, despite adopting open and free market policies and providing various incentives to attract foreign direct investment. Several delegations from developing countries stated that this situation exacerbated structural imbalances in the global economy as well as the slow-down of world economic activity. Some delegations stressed the importance of taking note of the regional investment flows in 1992 in Latin America and welcomed the initiative to organize a similar meeting in 1993 in Africa at the ministerial level.

6. Many delegations provided the Commission with updates on policy measures or legislative frameworks adopted to encourage and promote the positive role of foreign direct investment and transnational corporations in growth and development. Those changes were generally made to attain deregulation and reduce the bureaucratization of domestic economies, which, in addition to enacting broad domestic economic reforms and providing investments to enhance infrastructure, human capital and other favourable locational advantages, including the implementation of regional integration schemes, had been successful in attracting increasing amounts of foreign capital. One delegation from a developing country reported the appointment of a minister for investment, whose main task was to facilitate the attainment of a conducive internal economic environment for foreign direct investment. In the midst of increasing investment inflows into their country, a delegation from a developing country reported on the growth of local enterprises that had accumulated experience to become transnational corporations, with their own unique characteristics.

7. Despite the relative success on the part of developing countries and countries of Central and Eastern Europe to attract increasing levels of foreign direct investment, a number of delegations from those regions perceived problems and bottlenecks in attracting further increases in investment flows from transnational corporations. One delegation from a developing country pointed to the strain on infrastructure facilities and lack of skills of the labour force as problems in encouraging the growth of foreign direct investment in more high-technology and more capital-intensive industries. A delegation from a developing country expressed concern that implementation of structural reform had been difficult because of the unfavourable world trading environment that did not ensure adequate access to markets in developed countries. The timely and equitable conclusion to the negotiations on the Uruguay Round was also considered crucial by a number of delegations from developing countries.

8. Considerable discussion took place on further actions to be taken at the national, regional and multilateral levels to enhance the role of foreign direct investment and transnational corporations in economic development. One delegation from a developed country noted that it was essential for the Commission to concentrate efforts on stimulating wealth-creating investments to favour the rapid return of sustained, non-inflationary global growth and to examine the role of investments in development since that constituted an essential aspect of relations between countries. Another delegation from a developed country pointed to the need for efficient functioning of markets and the curtailment of restrictive business practices that blocked market forces. However, a delegation from a developed country pointed out that actions taken by different countries were not equally important in attracting foreign direct investment. A delegation from Central and Eastern Europe pointed to the need

for an enabling framework governing the relationship between transnational corporations and host countries, which would include the establishment of property rights, including intellectual property rights; the lifting of sectoral restrictions imposed on foreign direct investment; and the relaxation of domestic rules governing profit remittances abroad or capital repatriation. In that respect, the delegation stated that multilateral understandings at the global and regional levels might also be useful, particularly in matters concerning competition policies. A delegation from a developed country, speaking on behalf of other delegations, stated that all countries should aim at establishing a climate of stability and predictability to facilitate investment flows, particularly to developing countries. A delegation from a developing country maintained that the relationship between transnational corporations and developing countries must be based on mutual benefit and that, in that respect, the concept of transparency with regard to transnational corporations activities in host countries should be consistently and conscientiously applied and the laws and legislative provisions of both home and host countries should be respected. In the context of the rise of an increasingly integrated international production system, several delegations from both developed and developing countries addressed the need to further increase the share of developing countries, particularly the least developed countries, in global investment flows in order for transnational corporations to fulfil their objectives as engines for growth. In addition, several delegations from developing countries pointed to the need to improve the response capacity of their countries through assistance and cooperation programmes that addressed the specific necessities of regions and countries. In that respect, a delegation from a developed country emphasized that, in Africa, the issue of foreign direct investment should be addressed in the wider context of the economic and social development of the region. Economic development through activities of the private sector was one of the key themes of the forthcoming Tokyo Conference on African Development. A delegation from Africa expressed support for the initiative to support and promote foreign direct investment in Africa. Another delegation from a developing country expressed the need to assist developing countries in building capacities in the areas of technology, management know-how and improving quality of manpower resources necessary for their long-term growth and enhanced transnational corporation involvement, as well as the need to promote and establish linkages with domestic small- and medium-scale firms as sources of raw materials, parts, components and services that would enhance the competitiveness of transnational corporations, while exploiting greater synergies between local and domestic firms.

9. A number of delegations from developing countries maintained that transnational corporations also had a role to play in enhancing their contribution to world economic development. One delegation from a developing country suggested that home countries should adopt the necessary fiscal and legislative measures to induce transnational corporations to increase their investments and to devote a portion of their research-and-development activities to developing appropriate and affordable technology for the least developed countries. In that context, a delegation from a developed country elaborated on the laws adopted to enhance and promote foreign direct investment in developing countries. Another delegation from a developing country emphasized that transnational corporations should be more sensitive to the needs and aspirations of developing countries by adopting long-term perspectives on the economic opportunities that developing countries could offer. In addition, those firms should encourage greater local equity participation by promoting joint ventures and their listing in the local stock-exchange markets and could play a positive role in resource conservation by engaging in downstream processing activities which also increased value-added activities and the earning capacities of host countries.

10. One delegation from a developing country urged developed countries and transnational corporations to avoid aggravating the severe economic difficulties facing the developing countries by pursuing reprehensible trade practices, including corruption.

11. Discussions also centred on the changing relations between transnational corporations and host countries. One delegation from Central and Eastern Europe pointed out the important reciprocal advantages that could be generated by cooperative, non-confrontational relationships with transnational corporations. At the same time, transnational corporations had come to give more attention to sensitive national issues and devising ways to achieve their goals without unduly harming host countries, but according to that delegation, there was still scope for further improvement of those relations, given the advantages that both sides could gain. A number of delegations from developing and developed countries proposed that an item on the present situation of foreign investment in the least developed countries be included in a future session of the Commission and that special studies should be undertaken to identify the root causes behind the low levels of foreign direct investments in those countries, and make the necessary recommendations. A delegation from a developed country also noted that the quantitative importance of foreign direct investment was better gauged by analysing stock data than by analysing flow data. However, even that was inadequate, given the role of transnational corporations in non-equity relationships. Another delegation from a developed country also stressed that studies should be undertaken on the qualitative impact of foreign direct investment, linking foreign direct investment to technology transfers, know-how, research and other important economic variables.

12. At its 1st and 2nd meetings, on 5 April 1993, the Commission had heard presentations by three expert advisers on transnational corporations in the world economy and trends in foreign direct investment in developing countries. The expert advisers had outlined the evolution of a new growth trajectory of the world economy, characterized by long-term structural changes in production and pivotal advances in technology. In both respects, transnational corporations, particularly through their foreign-direct-investment activities, were recognized to have an instrumental role, although one that needed to be evaluated in the broader development context.

13. Ms. Sylvia Ostry outlined two aspects of the new growth path which distinguished it from previous periods of economic growth. First, locational advantages were increasingly being defined in a global context. Second, at the enterprise level, organizational changes implied a shift away from hierarchical relations towards looser firm structures. In addition, Ms. Ostry emphasized the need to establish a stable and credible international system of governance as a backdrop to increased investment, including foreign direct investment.

14. Mr. Osvaldo Sunkel, in his presentation, introduced a third component shaping the new growth path. The world economy was becoming more than simply the sum of its national components. That was particularly true of foreign direct investment in which the evolving international production system was closely intertwined with the global investment Triad of Japan, the United States of America and the European Community. Mr. Sunkel noted that the involvement of transnational corporations in privatization measures in developing countries often produced short-term dislocations because of the need to restructure the acquired firms, with only long-term benefits.

15. Both expert advisers recognized that the further consolidation of those developments, including through a more prominent role for transnational corporations, would not occur without dislocation and conflict. Careful

management was all the more urgent as those developments were taking place against a sombre macroeconomic and political backdrop.

16. Mr. Sanjaya Lall and Mr. Sunkel stated that an appropriate national policy response must be an integral component of the new growth trajectory. Both recognized that market-friendly reforms, introduced over the course of the past decade in many developing countries, had played a crucial role. However, as more countries liberalized, legislative differences would diminish as a means of attracting foreign direct investment. Moreover, both experts stated that liberalization, while expanding the opportunities for foreign direct investment, did not automatically guarantee the desired growth path. Mr. Lall observed that increased foreign direct investment was consistent with, and could further reinforce, either a low technology/low skill/low wage or a high technology/high skill/high wage growth regime, and Mr. Sunkel noted, from the Latin American experience, that a considerable amount of foreign direct investment during the 1980s had taken the form of acquisitions and financial investments which did not in themselves expand capacity or enhance productivity and might well be of a short-term nature. Indeed, all the experts warned against placing too great an emphasis on foreign direct investment.

17. Mr. Lall stated that the benefits from liberalization and globalization would require strengthening the host-country domestic economic base, including a pro-active role for the State in building up capabilities and infrastructure to sustain long-term growth. In particular, he emphasized science and technology as a critical component in creating desirable locational advantages in the emerging international production system. Mr. Lall recognized that building capabilities in that area would be a gradual process of up-skilling, but that only through concerted effort by host country Governments would the successful transfer of technology, including transfer by transnational corporations, to developing countries be realized. Once established, an innovative environment would attract investment, both domestic and foreign, with cumulative benefits for the whole economy. The point was reinforced by noting that newly industrializing economies in Asia, although successfully upgrading into higher value-added activities, continued to receive more foreign direct investment in traditional industries than did low-wage countries in, for example, sub-Saharan Africa.

18. In his concluding remarks, the Chief of the Research and Policy Analysis Branch of the Transnational Corporations and Management Division summarized the main issues discussed and the similar and divergent views expressed during the discussion. He identified the five main issues discussed: the emergence of an international production system, the decline in world-wide investment flows, the increasing relative importance of developing countries as recipients and sources of foreign direct investment in the world economy and the policy framework governing foreign direct investment.

Action taken by the Commission

19. The Commission took note of the reports of the Secretary-General on trends in foreign direct investment (E/C.10/1993/2), on the growth of foreign direct investment in the 1980s (E/C.10/1993/3), on the emergence of integrated international production (E/C.10/1993/4) and on the universe of transnational corporations (E/C.10/1993/11), and requested the Secretary-General to continue the programme of research on transnational corporations in the world economy and flows of foreign direct investment to developing countries, and to disseminate the results of such research through various publications, including the World Investment Report and the World Investment Directory, and submit to the

Commission at its twentieth session reports on trends and issues in foreign direct investment in the globalizing world economy.

Strengthening the role of the Commission on Transnational Corporations

20. At the 8th meeting, on 12 April 1993, the representative of Peru introduced a draft resolution (E/C.10/1993/L.2) entitled "Promotion of foreign investment in developing countries", which read as follows:

"The Economic and Social Council,

"Reaffirming General Assembly resolution S-18/3 of 1 May 1990, containing the Declaration on International Economic Cooperation, in particular the Revitalization of Economic Growth and Development of the Developing Countries, and taking note of General Assembly resolution 45/199 of 21 December 1990, containing the International Development Strategy for the Fourth United Nations Development Decade,

"Recalling its resolution 1992/36 of 30 July 1992, on privatization and foreign investment in the context of economic restructuring,

"Emphasizing the important role of foreign investment in economic growth and development,

"Taking note of the work done thus far by the former United Nations Centre on Transnational Corporations in promoting activities related to the promotion of foreign investment in developing countries,

"1. Invites the Governments of the developed countries to increase their activities aimed at promoting foreign investment in developing countries in the context of the modernization of production in which the latter are engaged;

"2. Calls upon Member States to exchange information among themselves, their interested private sectors and all competent organs, organizations and bodies of the United Nations system on their activities, programmes and experiences related to the promotion of investment in developing countries;

"3. Requests the Secretary-General, in coordination with other multilateral organizations and financial institutions, to increase technical cooperation to help interested developing countries attract foreign investment and transnational corporations in the context of the implementation of their economic programmes;

"4. Also requests the Secretary-General to report to the Commission on Transnational Corporations at its twenty-first session on the implementation of the present resolution."

21. At the 9th meeting, on 13 April, the representative of Colombia, on behalf of the States Members of the United Nations that are members of the Group of 77, introduced a draft resolution (E/C.10/1993/L.6) entitled "Strengthening the role of the Commission on Transnational Corporations", which read as follows:

"The Economic and Social Council

"1. Takes note of the reports prepared for the Commission on Transnational Corporations at its nineteenth session;

"2. Reaffirms the validity of the mandates of the Commission on Transnational Corporations and the need to further strengthen its role as the focal point within the United Nations system for comprehensive intergovernmental consideration of issues concerning foreign direct investment as related to transnational corporations;

"3. Emphasizes the need for the Secretary-General to reinforce the role of the Commission in strengthening the capacity of developing countries, at their request, to deal with transnational corporations by providing technical cooperation, consultative and advisory services, training, research and information to those countries;

"4. Requests the Secretary-General to present a report to the next session of the Commission on Transnational Corporations on its activities aimed at strengthening the role of the joint units established with the regional commissions;

"5. Requests also the Secretary-General, in coordination with multilateral organizations and financial institutions, to strengthen technical cooperation to developing countries in the creation of a favourable investment climate in the context of their economic programmes;

"6. Invites the Governments of developed countries to increase their activities aimed at promoting foreign investment in developing countries in the context of the modernization of production in which the latter are engaged;

"7. Emphasizes the importance of continuing, on the part of the Secretary-General, the studies on the global trends and the determinants of foreign direct investment flows as related to transnational corporations and the impact of those trends and flows on developing countries;

"8. Requests the Secretary-General to submit to the next session of the Commission on Transnational Corporations an analytical report on the flows of foreign direct investment to developing countries, in particular to the least developed countries, with recommendations on how to improve those flows and, as appropriate, to redress the drop in foreign direct investment;

"9. Further requests the Secretary-General to submit to the Commission at its next session an analytical and comparative report on the role of transnational corporations in Africa, with recommendations on ways and means to improve foreign direct investment inflows throughout the African continent;

"10. Takes notes of the regional conference on foreign investment flows in 1992 in Latin America and welcomes the initiative to organize a similar meeting in 1993 in Africa at the ministerial level;

"11. Stresses the importance of continuing, on the part of the Secretary-General, the work being done in the area of transnational corporations in services and of intensifying technical cooperation to developing countries, at their request, for dealing with transnational corporations in services;

"12. Requests further the Secretary-General, in technical cooperation activities, to continue to promote and to provide advice on foreign direct investment as a way of encouraging interregional, regional and subregional economic integration and technical and economic cooperation among developing countries;

"13. Requests the Secretary-General to continue activities in matters relating to the role of transnational corporations in the development of small- and medium-sized enterprises;

"14. Takes note of the results of the consultations convened by the President of the General Assembly on the draft code of conduct on transnational corporations from 21 to 23 July 1992;

"15. Requests the Secretary-General to prepare for the Commission on Transnational Corporations at its twentieth session suitable background papers and recommendations for a fresh approach to an international framework on foreign investment, which might include the preparation of guidelines, taking into account the views of the Member States on such matters;

"16. Calls upon donor countries, in particular developed countries, to increase financial support flows for research, advisory and information work as it relates to foreign investment;

"17. Takes note of the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, and reaffirms the importance of the Group's work in contributing to greater transparency in the activities of transnational corporations;

"18. Calls upon Member States to exchange information among themselves, their interested private sectors and all competent organs, organizations and bodies of the United Nations system on their activities, programmes and experiences related to the promotion of investment in developing countries;

"19. Reiterates the urgent need for the removal of the remaining obstacles to the creation of an atmosphere conducive to constitutional negotiations in South Africa;

"20. Recognizes that multilateral financial institutions such as the World Bank and the International Monetary Fund are unable to resume their lending activities to South Africa as a result of the inhibiting political situation in that country, such as the ongoing violence;

"21. Reiterates further its obligations towards the complete eradication of apartheid, reaffirmed in General Assembly resolutions 45/176 A of 19 December 1990, 46/79 A of 13 December 1991, 47/116 A of 18 December 1992 and the Declaration of Apartheid and its Destructive Consequences in Southern Africa, contained in the annex to General Assembly resolution S-16/1 of 14 December 1989;

"22. Reaffirms that Governments, entrepreneurs and enterprises, including transnational corporations, have contributed to the demise of the apartheid system, and invites them to give their full and concerted support to that end, and to take appropriate measures regarding the vulnerable and critical process now under way in South Africa, with the aim of achieving the total eradication of the apartheid system and the establishment of a united non-racial and democratic South Africa;

"23. Requests the Secretary-General:

"(a) In close cooperation with the relevant organs of the United Nations, to continue the work of collecting and disseminating information on the activities of transnational corporations conducting operations in South Africa;

"(b) To continue preparing studies on the level, form and responsibilities of the operations of transnational corporations in South Africa, including their non-equity business arrangements and their involvement in particular sectors of the South African economy;

"(c) To continue examining possible contributions of transnational corporations to the construction of a united and non-racial democratic South Africa in the economic and social fields, taking into account the special need for the development of human resources, particularly the training of black South African entrepreneurs, and for employment, housing and health;

"(d) To report to the Commission on Transnational Corporations at its twentieth session, the Economic and Social Council and the General Assembly on the implementation of the present resolution;

"24. Requests the Secretary-General to report to the Commission at its twentieth session on the implementation of the present resolution."

22. Also at the 9th meeting, in light of the introduction of draft resolution E/C.10/1993/L.6, draft resolution E/C.10/1993/L.2 was withdrawn by its sponsor.

23. At the 11th meeting, on 15 April, the Vice-Chairman, Mr. Ioan Barac (Romania), introduced a draft resolution (E/C.10/1993/L.8) entitled "Strengthening the role of the Commission on Transnational Corporations", submitted on the basis of informal consultations held on draft resolution E/C.10/1993/L.6. In introducing the draft resolution, he orally revised it.

24. The Commission then adopted draft resolution E/C.10/1993/L.8, as orally revised (see chap. I, sect. A, draft resolution I).

25. In the light of the adoption of draft resolution E/C.10/1993/L.8, draft resolution E/C.10/1993/L.6 was withdrawn by its sponsors.

26. After the adoption of the draft resolution, a statement was made by the representative of the United Kingdom of Great Britain and Northern Ireland.

Chapter III

ROLE OF TRANSNATIONAL CORPORATIONS IN THE NEWLY OPENED ECONOMIES OF CENTRAL AND EASTERN EUROPE

1. The Commission considered item 4 of its agenda at its 4th and 5th meetings, on 6 and 7 April 1993. It had before it the report of the Secretary-General on foreign direct investment in the newly opened economies of Central and Eastern Europe (E/C.10/1993/5).

2. In introducing the item, the Chief of the Legal, Environment and Transitional Economies Branch of the Transnational Corporations and Management Division outlined the main themes contained in the report. She underlined that foreign direct investment could be an important catalyst in the opening-up process of the Central and Eastern European economies and their integration into the world economy.

3. Delegations congratulated the Division on the interesting analysis contained in the report, which was considered useful as a basis for programming activities in the area of transitional economies.

4. Delegations welcomed the strong growth in foreign direct investment flows to the countries of the region in spite of the world-wide recession and the overall decrease in foreign direct investment in 1991. They noted that transnational corporations could play a wide-ranging role in the efforts of the countries of the region to convert to market economies, through the dissemination of management skills and expertise, and could contribute positively to the privatization processes and to the transfer of technology.

5. Some delegations noted that Central and Eastern European Governments should create economic and legal frameworks relating directly to the activities of transnational corporations and an expanded private sector. In addition, many delegations stressed the need for measures to be adopted which would create a stable and predictable domestic political, economic and social environment. That was viewed as a basic determinant in attracting foreign direct investment.

6. A number of delegations noted that rules regarding equity and non-equity investment should be clear and readily understandable. The rules should be set up so as to avoid excessive administrative burdens.

7. One delegation stressed the need for an in-depth analysis of foreign direct investment in newly opened economies on a comparative, case-by-case basis, with special focus on the strategies of transnational corporations in the countries in transition, the identification of potential sources of foreign support etc. Similar research on and analysis of the experience of transnational corporations in the privatization process would also be beneficial.

8. Delegations underlined the importance of international technical support in assisting the transition economies in their efforts to strengthen foreign direct investment policies. Detailed country, regional and interregional studies, an exchange of international experts, round-table meetings and training activities were some of the activities that could assist countries of the region to promote foreign direct investment and maximize its benefits in order to facilitate transition.

Action taken by the Commission

9. The Commission:

(a) Took note of the report of the Secretary-General on foreign direct investment in newly opened economies of Central and Eastern Europe (E/C.10/1993/5);

(b) Reaffirmed the importance it attached to the research and technical assistance activities of the Transnational Corporations and Management Division in countries with transitional economies;

(c) Noted the assessment made by the group of expert advisers on ways to attract foreign investment into economies in transition;

(d) Requested the Secretary-General to report to the Commission at its twentieth session on the analytical and technical assistance activities of the Division in all transitional economies and to report to it on the progress and activities of foreign direct investment and transnational corporations operating in transitional economies.

Chapter IV

TRANSNATIONAL CORPORATIONS IN SERVICES, INCLUDING BANKING

1. The Commission considered item 5 of its agenda at its 7th meeting, on 8 April 1993. It had before it the report of the Secretary-General on issues related to the liberalization of foreign direct investment in services (E/C.10/1993/6).

2. In introducing the item, the Chief of the Research and Policy Analysis Branch of the Transnational Corporations and Management Division stated that the service sector was the largest sector in foreign direct investment and that its predominance was likely to continue. Countries that failed to take that into account in their foreign direct investment policies would be left to compete for less than half of the annual flow and miss the fastest growing component of foreign direct investment. Moreover, they might deprive themselves of a range of service products and technologies that were indispensable for increasing their competitiveness but that could not be acquired through trade channels, because most services were not tradeable. That might be especially the case with financial services in developing countries: foreign direct investment in those services was relatively small, and growing slowly. Since financial services, especially banking, were a key service industry, with linkages to many other economic activities, that might lead to an uncompetitive financial sector hampering the efficiency of the whole economy.

3. To prevent that, countries increasingly liberalized foreign direct investment flows to service industries: whereas developed countries had progressed very far in that respect, in developing countries the process had just begun. Furthermore, the liberalization was extending to service industries traditionally closed to foreign direct investment, such as air transportation, telecommunications and even public utilities. As the Chief of the Branch noted, the liberalization of foreign direct investment in services could be a major tool for achieving a more efficient services sector - which, in turn, was the basis for a more efficient industrial sector.

4. All delegations taking the floor agreed that the liberalization of foreign direct investment in services was a major issue because of the important role that an efficient service sector played in the process of development. A number of delegations added that not only the efficiency but also the availability of infrastructure and producer services were crucial in many countries, especially in the countries in transition to a market economy where services had been particularly neglected in the past. Most delegations also agreed on the role that transnational service corporations and service foreign direct investment could play in those respects - that is, as a source of efficiency through the increase of competitive pressures and availability through the supply of quality services. One delegation supported the findings of the report that liberalization should be accompanied by a strengthening of prudential regulations, which were of vital importance for the improvement of market access in a number of service industries. In addition, liberalization, in order to be complete and to permit all benefits, should also address the issue of the movement of labour, especially professional labour. Some delegations, while agreeing with the need and potential positive effects of the liberalization of foreign direct investment or trade in services, pointed out that certain restrictions, limited in time, might be justified to give the domestic industry the chance and time to improve its performance in face of the potential increased competition in the future.

5. Several delegations mentioned the need to have an efficient financial sector, especially in services pertaining to financial intermediation and insurance services. One delegation was of the view that protectionist measures in that sector resulted in higher costs of capital and, in extreme cases, in a lack of access to capital for potentially productive industries. Another delegation stated that, in its country, the liberalization of the financial sector increased macro- and microeconomic efficiency and helped to enhance the competitiveness of the whole economy. Most delegations agreed that more attention should be given in the work of the Division to empirical analysis of the results of the liberalization of rules concerning foreign direct investment in service industries.

6. Most of the delegations that spoke agreed also on the need not only to continue research and technical cooperation in the area but also to strengthen and expand such cooperation, in view of the increasing presence of transnational service corporations in the production and exchange of services, to improve the response capacity of developing countries and to help countries in transition build a service infrastructure by encouraging foreign direct investment in services. They emphasized the need to continue the policy-oriented studies on the effects - positive or negative - of the liberalization of foreign direct investment in services and to expand technical cooperation programmes on how to encourage foreign direct investment in services. Other issues suggested for further study included the links between foreign direct investment and trade in services in general and the link between the liberalization of foreign direct investment in developing countries and their position in trade in services in particular. The issue of complementarity between foreign and domestic investment in service industries was also suggested as important to developing countries, including the production of services under licence or by joint ventures.

Action taken by the Commission

7. The Commission took note of the report of the Secretary-General on transnational corporations in services, including banking (E/C.10/1993/6). It requested the Secretary-General to strengthen in-depth research and technical cooperation in the area of services, taking into account the deliberations of the Commission, and to submit a report thereon to the Commission at its twentieth session.

Chapter V

INTERNATIONAL, REGIONAL AND BILATERAL ARRANGEMENTS AND AGREEMENTS RELATING TO TRANSNATIONAL CORPORATIONS

1. The Commission considered item 6 of its agenda at its 5th and 6th meetings, on 7 April 1993. It had before it the report of the Secretary-General on the international framework for transnational corporations (E/C.10/1993/8).

2. The Chief of the Legal, Environment and Transitional Economies Branch of the Transnational Corporations and Management Division introduced the report of the Secretary-General. She noted that the most important developments at the multilateral level were the adoption of the World Bank Guidelines on the Treatment of Foreign Direct Investment, the issuance of draft agreements within the Uruguay Round of multilateral trade negotiations and the approval of Agenda 21 following the Earth Summit in Rio de Janeiro. States now recognized the necessity or desirability of creating an effective international framework for foreign direct investment.

3. At the regional and international levels there were important developments in foreign investment regulations, including the North American Free Trade Agreement, as well as decisions of the Organisation for Economic Cooperation and Development (OECD) and the European Community (EC). Further progress had been made towards regional economic cooperation affecting foreign direct investment in Africa, Asia and the Americas. In furthering the contributions to the network of international arrangements, bilateral investment treaties continued to expand.

4. An expert representing the World Bank gave a brief description of the World Bank Guidelines on the Treatment of Foreign Direct Investment. He stressed that the Guidelines represented an overall framework which embodied essential principles intended to promote foreign direct investment world wide. Furthermore, the Guidelines emphasized the establishment of a favourable legal regime for all investors, recommended a policy of open admission and provided that States might not expropriate foreign investments except in accordance with applicable legal procedures. The major value of the Guidelines was that they partially codified existing standards, and also broadly aimed at progressing or adding to existing laws.

5. Several delegations stressed the need for an international framework for global business and expressed great interest in the World Bank Guidelines, while requesting more clarification on their scope and nature.

6. A representative of the insurance industry, in making a case for greater regulation and harmonization of the insurance industry throughout the world, noted that denial of market entry was currently the biggest hurdle faced by the insurance industry. There were many countries which mandated that reinsurance be provided by State-licensed monopolies. A global harmonization scheme should be created. There was no organization more appropriate than the United Nations and the Transnational Corporations and Management Division to analyse the possibilities of harmonizing the insurance industry world wide.

7. One expert adviser noted that in his country, although there were three agencies that guaranteed and insured foreign direct investment, none had been set up under international norms.

8. A representative of the business community, speaking on corruption, said that the effects of corruption in developing countries were more devastating

than in the industrialized countries because they undermined the basic economic and social development of those countries. On the issue of "facilitation payments", he said that until working conditions were improved, particularly pay for civil servants, it would be difficult to make significant inroads regarding "facilitation payments". It had been estimated that corruption in developing countries drove up the cost of business by as much as 30 to 40 per cent. In an effort to stem corruption, such private sector institutions as Transparency International had been established.

9. Other delegations expressed reservations about regulating the behaviour of transnational corporations through an international framework. For such a framework to be effective, it would have to be incorporated into national laws since transnational corporations could shift their production and assets from one territory to another with relative ease.

10. An observer, commenting on the difficulty faced by developing countries in trying to regulate global business, said that it was time for a fresh approach to be taken as there was no consensus on a code of conduct. The new approach could include the preparation of guidelines for global business or other suitable international instrument. His Government had proposed a renewal of the Commission's mandate to continue work on an international framework of good business practices. Moreover, it had proposed an internationally agreed-upon set of principles, dealing with such issues as environmental protection, consumer protection, restrictive business practices and the treatment of global businesses. A timetable should be set for completion of negotiations. He further proposed that the Commission endorse the convening of a symposium on guidelines for global business, to be held later in 1993. Some delegations expressed support for the preparation of guidelines.

11. With regard to regional frameworks, one delegation said that a recently agreed regional pact would hinder the flow of foreign direct investment to countries seeking to export to that region's market. The regional pact could seriously displace production in some developing countries. The delegation called for consistency between that regional agreement and GATT rules.

12. Two delegations expressed a desire for more emphasis in the work of the Division on regional integration efforts made by African countries.

13. A few delegations stressed the importance of bilateral agreements. Even if regional agreements were concluded on the basis of general investment norms, bilateral agreements were needed for the technical aspects, particularly with regard to the legal systems of the countries involved. One delegation was of the view that more importance should be given to that issue.

Action taken by the Commission

14. The Commission took note of the report of the Secretary-General on the international framework for transnational corporations (E/C.10/1993/8).

15. At the 8th meeting, on 12 April 1993, the observer for Australia 4/ introduced a draft resolution (E/C.10/1993/L.4) entitled "Framework for foreign direct investment", which read as follows:

4/ In accordance with rule 72 of the rules of procedure of the Economic and Social Council.

"The Commission on Transnational Corporations

"1. Recognizes the central importance of transnational corporations in foreign direct investment, with its positive impact on world trade, technology transfer and the expansion of the global economy;

"2. Takes note of the report of the President of the General Assembly at its forty-sixth session on a code of conduct on transnational corporations, (A/47/446, annex), which called for a fresh approach to the development of a legal framework for direct foreign investment, which could include the preparation of guidelines and/or any other international instrument on foreign investment;

"3. Also takes note of the elaboration by the World Bank of voluntary Guidelines on the Treatment of Foreign Direct Investment, 5/ which have been drawn substantially from existing materials with the goal of promoting foreign direct investment;

"4. Believes that the World Bank Guidelines are consistent with the report of the President of the General Assembly as a contribution to the emerging framework;

"5. Notes that in the introductory remarks to the World Bank Guidelines recognition is given of the continuing need for provisions covering good conduct on the part of the foreign investor;

"6. Believes that there is a need for the development of a guideline for global business to elaborate an international norm for ethical business behaviour;

"7. Decides that the Division on Transnational Corporations and Management of the Secretariat should be requested to continue its research and documentation on the question."

16. At the 10th meeting, on 14 April, in the light of the introduction of draft resolution E/C.10/1993/L.6, 6/ draft resolution E/C.10/1993/L.4 was withdrawn by its sponsor.

5/ World Bank, Legal Framework for the Treatment of Foreign Investment, vol. II, Guidelines (Washington, D.C., 1992).

6/ See chap. II, para. 21.

Chapter VI

ACTIVITIES OF THE TRANSNATIONAL CORPORATIONS AND MANAGEMENT DIVISION AND ITS JOINT UNITS

1. The Commission considered item 7 of its agenda at its 7th to 11th meetings, on 8 and 12 to 15 April 1993. It had before it the following documents:

(a) Report of the Secretary-General on the follow-up to the United Nations Conference on Environment and Development as related to transnational corporations (E/C.10/1993/7);

(b) Report of the Secretary-General on the implementation of the United Nations programme on transnational corporations (E/C.10/1993/9);

(c) Report of the Secretary-General on experience gained in technical cooperation activities involving privatization and foreign investment (E/C.10/1993/10);

(d) Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eleventh session (E/C.10/1993/12);

(e) Report of the Secretary-General on the role of transnational corporations in South Africa (E/C.10/1993/13 and Add.1).

2. In introducing the item, the Director of the Transnational Corporations and Management Division said that during the previous year, as a result of the first phase of the restructuring of the Secretariat, the Division had integrated into its work the issues of foreign investment and technology transfer, as well as activities related to the management reform of public enterprises and public administration. It had also set up three new units: on privatization, enterprise development and transitional economies.

3. The Director specifically highlighted the issuance of the World Investment Report, 1992, the first eight volumes of the Library on Transnational Corporations and the first three volumes of the World Investment Directory. He stressed that research in the area of foreign investment and transnational corporations had been undertaken in close collaboration with other major international centres of economic analysis and policy development and gave examples of such cooperation and complementarity.

4. Systemic transformation in the countries of Central and Eastern Europe had become a new and important focus of the Division's work, with special emphasis on technical cooperation activities and research. In addition, the Division had been assigned a leading role in coordinating the response of the United Nations system to the challenge of transition to a market economy in the former Soviet Union.

5. The Director pointed out that the demand for the Division's advisory and training services continued to grow. Increasingly, the Division's technical cooperation activities had focused on areas that built the capacity for sustainable development as it related to foreign direct investment. The Director called on the countries that had contributed generously to the Trust Fund on Transnational Corporations to continue to do so, so that the Division could provide the services so badly needed by low-income countries attempting to adapt to the requirements of a rapidly globalizing world economy. Finally, he expressed the hope that, in restructuring the Secretariat, the traditional

strength of the programme of strong linkages among the functions of research, policy analysis, technical cooperation and related information support would be reinforced to support intergovernmental policy-making in the area of international investment for development.

6. Many delegations expressed their appreciation of the quality and quantity of the Division's analytical and technical cooperation work in the area of foreign direct investment and transnational corporations. One delegation, speaking on behalf of many others, said that the Division's multifaceted work was especially important for developing countries.

7. One delegation raised the question about possible duplication of the Division's activities, particularly in the area of privatization, with those of working groups set up following the eighth session of the United Nations Conference on Trade and Development, held at Cartagena de Indias, Colombia, in February 1992.

8. Some delegations favoured further enhancement of the Division's analytical work, which was of considerable value to decision makers, particularly in developing countries and economies in transition.

9. A number of delegations requested that in future the Division provide more detailed information on the impact of its advisory and training activities on host developing countries. A number of delegations provided the Commission with examples of the Division's contributions towards building their national capacities to deal with transnational corporations. They expressed the hope that the Division would continue to implement training and advisory projects related in particular to attracting foreign investment and assisting in the development of those countries' own transnational corporations.

10. One delegation was of the opinion that the technical cooperation function should be further reinforced and that there should be more transparency in reporting to the Commission on specific technical cooperation activities. Another delegation, while commending the work of the Division in various fields, hoped that it would direct increased attention to Africa.

11. Several delegations noted the work of the Division in the development of an information system on transnational corporations and requested that it be continued. They also noted that, in their experience, the system had been effectively responsive to the increasingly complex information needs of Member States, especially in support of the evaluation and screening of investment proposals. The launching of a pilot project on the development of a foreign investors network (FIND) was noted with interest.

12. A delegation from a developed country spoke about the importance for the Commission to identify the programme's priorities more clearly so that the work of the Division could be realistic and viable. Several delegations felt that the current restructuring of the Secretariat should not be allowed to impede the work of the Division, which was of vital importance to developing countries.

13. One delegation said that the Division should make a greater contribution to the implementation of Economic and Social Council resolution 1992/36 on privatization and foreign investment and General Assembly resolution 47/171 on privatization in the context of economic restructuring. Another delegation said that activities on privatization and transitional economies should be seen in conjunction with the Division's other work on the developmental aspects of foreign investment.

14. A number of delegations observed that many of the Division's publications that were useful for national decision makers had been issued in English only, which made it difficult for countries that worked in other languages, especially French. They inquired whether translations of the Division's major publications, particularly of its World Investment Report, would be possible, perhaps through the utilization of available bilateral resources.

15. One delegation from a developing country said that smaller United Nations missions appreciated the Division's convenient location at Headquarters in New York.

16. The Chiefs of the Division's Joint Units with the Economic Commission for Africa, the Economic Commission for Latin America and the Caribbean and the Economic and Social Commission for Asia and the Pacific made statements on the activities of their Units, in which they provided detailed accounts of projects completed in 1992 and projects being implemented.

17. An expert adviser made a statement on behalf of the group of expert advisers. He said that the group was deeply concerned about the well-being of one of the expert advisers, Chakufka Chihana of Malawi, who had been arrested the previous year while preparing to attend the eighteenth session of the Commission. The group of expert advisers urged that the United Nations monitor his whereabouts closely and take all necessary measures to procure his immediate release. The representatives of the International Labour Organisation and of the International Confederation of Free Trade Unions and a delegation also made statements in which they condemned the detention of Mr. Chihana as being in contradiction with basic principles of fundamental human rights.

18. In his response to the points made during the discussion, the Director emphasized that the Division was unique in its area of specialization, complementing the work of other United Nations and non-United Nations intergovernmental organizations. Coordination with relevant international centres for research and technical assistance was a major element of the Division's operations. Further efforts would be made to avoid duplicating the work of other agencies. He assured the Commission that the Division would attempt to expand the number of its titles issued in working languages other than English. He added that the volume on Africa of the World Investment Directory was being completed and would be issued before the end of the year, and that the Division had been planning to organize, in cooperation with the Economic Commission for Africa and the African Development Bank, a high-level seminar on foreign direct investment in Africa.

Transnational corporations in South Africa

19. In introducing the question, the Chief of the Legal, Environment and Transitional Economies Branch of the Division said that developments of a political and economic nature were taking place at an ever-increasing pace in South Africa. The African National Congress (ANC) had relaxed its policy on economic sanctions but made it clear that several conditions should be met before sanctions were lifted. Upon the fulfilment of certain conditions, ANC had indicated that it would call for trade, investment, financial and diplomatic sanctions to be lifted, but the international arms and oil embargoes would remain in place.

20. The lifting of sanctions would enhance business confidence, but it could not in itself have a major impact on increasing investment, unless it was accompanied by a perception by investors of overall stability and economic discipline. South Africa had made rapid progress towards economic discipline, and the Government's Finance Department had recently unveiled an economic

restructuring programme, whose success depended to a large extent on wage restraints from the unions and an inflow of foreign capital. The report before the Commission examined several economic measures that the Government had initiated or might undertake in the context of the country's structural economic readjustments, including abolishing the dual exchange rate system, privatizing industry, restructuring the economy and fostering a favourable tax regime. These measures, if mobilized, could create an environment more conducive to attracting transnational corporations.

21. There was agreement among delegations that sanctions had played a positive role in supporting the internal struggle and in influencing the Government of South Africa to dismantle apartheid, and that foreign direct investment had an important role to play in the reconstruction of a non-racial South Africa. There was also agreement that favourable conditions must be created for the resumption of negotiations towards establishing a democratic regime.

22. One delegation, while noting that the report of the Secretary-General had adopted a cautious approach to the various economic measures, questioned the usefulness of drawing on the positive experience of Chile, Jamaica, Mexico and Singapore with privatization, as those countries had not endured racial segregation, which denied certain groups the right to economic opportunity.

23. Another delegation inquired whether it would be feasible to undertake a study on the role of transnational corporations in Africa in general and to submit it to the Commission at its next session.

24. A representative of an international trade union organization noted that transnational corporations had an important role to play in alleviating the social impact of apartheid.

25. In responding to questions, the Director noted that the Division had in previous years prepared reports on the social impact of transnational corporations in South Africa, including training. In 1990, ANC had asked the Division to draft a policy statement on the role of transnational corporations in a post-apartheid South Africa. In that regard, joint-venture schemes and other mechanisms had been proposed to develop entrepreneurship on the part of the black population. Regarding the feasibility of a study on the role of transnational corporations in Africa, the Director suggested that such a study could be initiated with the cooperative effort of the Economic Commission for Africa and submitted as an interim report to the Commission at its next session, since the study might not be completed by that date.

Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

26. The report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eleventh session (E/C.10/1993/12), which contained three draft resolutions recommended for adoption by the Commission, was introduced by the Vice-Chairman of the Group, Mr. Ravi Kathpalia (India). The session had been devoted to the special topic of accounting education.

27. There was a growing awareness of the importance of accounting and related problems, but many developing countries and countries in transition were in the process of modernizing their accounting systems. While a high level of accountancy had been achieved in many countries, there was no common, guaranteed level world wide. That posed problems for accountants from developing countries and countries in transition, since they were not accorded equal status. Therefore, the Group called upon the International Federation of Accountants to

extend its role to cover the needs of developing countries by developing a global qualification. Furthermore, all international organizations, including the United Nations, should join together in developing a master plan for education.

28. One delegation noted with satisfaction that the Group had recognized the need to develop a global qualification and inquired as to the status of that project. Another delegation commended the Group for its work and stated that the results of the eleventh session of the Group were indicative of its innovative nature and that its conclusions on the subject of accounting education were very much to the point. The same delegation noted that by concentrating on a single subject, the Group had been able to make an in-depth analysis and arrive at conclusions tailored to the problem. The delegation hoped that the International Federation of Accountants would devote all its efforts to accomplishing the important task given to it by the Group: that of developing a global accounting qualification.

29. Another delegation also expressed its appreciation of the work of the Group and the resolution on accounting education adopted by the Group. On the draft resolution on the enlargement of the Group, recommended for adoption by the Commission, that delegation expressed doubts regarding the proposed size and composition, maintaining that the recommendation was not appropriate at a time when the United Nations was being streamlined. The same delegation expressed the view that the draft resolution on the enlargement of the Group and the draft resolution in which the Secretary-General was requested to ensure that the appropriate resources be made available to the Group should not have been addressed at the session devoted to accounting education but at a regular session.

Privatization and foreign investment

30. In introducing the question, the Chief of the Advisory and Training Services Branch of the Division said that foreign investors had played an important role in the privatization of medium-sized and large-scale enterprises. He noted that the investment climate preconditions for attracting foreign participation applied equally to privatization and to greenfield investment opportunities. Those preconditions included macroeconomic and legal reforms, as well as transparency and stability of arrangements and respect for the rule of law. Privatization had been an important inducement to foreign investment in parts of Latin America and Eastern Europe, where larger-scale enterprises had been privatized.

31. Several delegations from developing countries and transitional economies stated that their Governments were committed to economic liberalization, including a measure of privatization.

32. One delegation from a developing country described specific liberalization measures that were being implemented there, as well as the measures taken specifically to attract foreign investment. The measures included improved access to foreign exchange, strengthening of the investment promotion centre, joining the Multilateral Investment Guarantee Agency and seeking relationships with national investment, credit and insurance organizations.

33. Another delegation from a transitional economy welcomed the assistance provided by the Division in strengthening institutions in order to develop a market economy, including the support provided to the national privatization agency. That delegation urged the Division to be more active in assisting government programmes concerning privatization and foreign investment.

34. One delegation detailed specific economic liberalization measures adopted in his country and summarized the various modes of foreign participation in the economy. While acknowledging that foreign participation was important, the delegation cited the need for training both public and private sector officials in local capacity-building and suggested that technical cooperation programmes should support the process. He also welcomed the technical assistance provided by the Division in capital market development in his country, particularly human resource development.

35. A delegation from a developed country suggested that future work in that area should be extended to cover demonopolization.

36. The representative of the International Chamber of Commerce noted that more than 70 countries had launched major privatization programmes over the past decade and that well-conceived programmes could attract additional foreign investment.

37. In responding to comments on the programme's technical cooperation activities, the Chief of the Advisory and Training Services Branch said that the Division's assistance was estimated to have had an impact on more than 700 projects with a value of about $25 billion worth of foreign investment. Since the inception of the programme, the Division had organized 261 training workshops, seminars and round-table meetings and 35 fellowships and study tours. More than 7,000 middle- and high-level officials were reported to have benefited from the workshops and more than 150 senior officials from the fellowships and study tours. The Division had engaged in an evaluation and self-evaluation of its work as a guide in designing future projects.

Transnational corporations and the environment

38. The Chief of the Legal Environment and Transitional Economies Branch introduced the question.

39. A high-level representative of a major European transnational corporation made a presentation focusing on the corporation's innovative auto recycling programme, its accomplishments regarding harmful substances such as asbestos and CFCs, and its plans to expand its environmentally sound management practices throughout Europe as well as in its operations in developing countries.

40. One delegation recalled that the discussions during the United Nations Conference on Environment and Development (UNCED) had demonstrated that environmental responsibility was not isolated or applied to individual groups but was a collective responsibility. UNCED used the term "business and industry" intentionally to emphasize that it did not matter for the environment whether a business was national or international. Accordingly, business and industry should be considered as a whole, without discrimination of transnational corporations, to avoid incomplete conclusions, or a segmented and discriminating effort. In the view of that delegation, the voluntary guidelines developed by transnational corporations could be incorporated into the economic process as a whole to benefit the environment.

41. Some delegations commented on the role of the Division and the Commission in the area of environment and the possibility of overlap of work both between the Commission on Transnational Corporations and the Commission on Sustainable Development, and between the Division and other United Nations bodies that had received specific mandates from Agenda 21. Some delegations suggested that it might be premature for the Commission to identify priorities in the area at the present time. A suggestion was put forward that the report under discussion be

transmitted to the Commission for Sustainable Development to avoid any duplication of work.

42. One delegation raised questions on the status of annex I to the report under discussion. That delegation observed that the items in annex I went beyond the environmental context.

43. In responding to the points raised during the discussion, the Chief of the Branch explained that annex I had been derived from a careful examination of Agenda 21 as it related to transnational corporations.

Action taken by the Commission

44. The Commission:

(a) Took note of the reports of the Secretary-General on the implementation of the United Nations programme on transnational corporations (E/C.10/1993/9), on experience gained in technical cooperation activities involving privatization and foreign investment (E/C.10/1993/10) and on the role of transnational corporations in South Africa (E/C.10/1993/13 and Add.1);

(b) Also took note of the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eleventh session (E/C.10/1993/12) and decided to defer consideration of the three draft resolutions contained therein to its twentieth session;

(c) Requested the Secretary-General to take into account, in the future implementation of the programme on transnational corporations, the views expressed by delegations at the Commission's nineteenth session, and to submit to the Commission at its twentieth session reports on activities of the programme on transnational corporations, including those of the joint units established with the regional commissions, and on experience gained in technical cooperation relating to foreign direct investment and transnational corporations.

Follow-up to the United Nations Conference on Environment and Development as related to transnational corporations

45. At the 9th meeting, on 13 April 1993, the representative of Colombia, on behalf of the States Members of the United Nations that are members of the Group of 77, introduced a draft decision (E/C.10/1993/L.5) entitled "Follow-up to the United Nations Conference on Environment and Development as related to transnational corporations", which read as follows:

> "The Commission on Transnational Corporations, taking note of the report of the Secretary-General on the follow-up to the United Nations Conference on Environment and Development as related to transnational corporations, 1/ requests the Chairman of the Commission on Transnational Corporations to transmit the recommendations and the report of the Secretary-General on the follow-up to the United Nations Conference on Environment and Development as related to transnational corporations, as a substantive contribution of the Commission to the work of the Commission on Sustainable Development."

46. At the 11th meeting, on 15 April 1993, the Vice-Chairman of the Commission, Mr. Ioan Barac (Romania), introduced a draft decision (E/C.10/1993/L.7) entitled "Follow-up to the United Nations Conference on Environment and Development as

related to transnational corporations", submitted on the basis of informal consultations held on draft decision E/C.10/1993/L.5.

47. At the same meeting, the Commission adopted draft decision E/C.10/1993/L.7 (see chap. I, sect. B, draft decision II).

48. In the light of the adoption of draft decision E/C.10/1993/L.7, draft decision E/C.10/1993/L.5 was withdrawn by its sponsors.

Chapter VII

PROVISIONAL AGENDA FOR THE TWENTIETH SESSION OF THE COMMISSION

1. The Commission considered item 8 of its agenda at its 11th meeting, on 15 April 1992. It had before it the draft provisional agendas for the twentieth and twenty-first sessions (E/C.10/1993/L.9).

2. Statements were made by the representatives of Algeria, Belgium, Benin, Colombia, France, Germany, Mexico, the Netherlands, Peru, Poland, the Russian Federation, Tunisia, the United Kingdom of Great Britain and Northern Ireland, the United States of America and Zambia and the observers for Côte d'Ivoire and Venezuela. The Director of the Transnational Corporations and Management Division also made a statement.

3. The provisional agenda for the twentieth session was then orally revised as follows:

(a) In item 3, the words "in particular" were added after the words "developing countries";

(b) Item 5 was reworded to read:

"International arrangements and agreements relating to foreign direct investment and transnational corporations, including guidelines and other instruments.

"Presentation by relevant organizations, including the Organisation for Economic Co-operation and Development";

(c) In item 6, the words "and regional" were added after the word "Country"; and a report of the Secretary-General on foreign direct investment flows to the least developed countries and non-African developing countries was added to the documentation;

(d) The words "and consideration of future activities of the Commission" were added at the end of item 8; and, in the third report listed, the words "eleventh and" were inserted before the word "twelfth".

4. The Commission decided to defer consideration of the draft provisional agenda for the twenty-first session to its twentieth session. The Commission then decided to recommend to the Economic and Social Council approval of the provisional agenda and documentation for the twentieth session, as orally revised (see chap. I, sect. B, draft decision I).

Chapter VIII

ADOPTION OF THE REPORT OF THE COMMISSION ON ITS NINETEENTH SESSION

1. At the 11th meeting, on 15 April 1992, the Rapporteur introduced and orally revised the draft report of the Commission on its nineteenth session. The draft report was contained in documents E/C.10/1993/L.3 and Add.1-4, except for the chapter on the activities of the Transnational Corporations and Management Division and its joint units, which was circulated in English only.

2. Statements were made by the representatives of Colombia and the United Kingdom of Great Britain and Northern Ireland.

3. The Commission then adopted the draft report, as orally revised, on the understanding that the Rapporteur would finalize it by incorporating the necessary changes regarding the action taken by the Commission.

Chapter IX

ORGANIZATION OF THE SESSION

A. Opening and duration of the session

1. The Commission on Transnational Corporations held its nineteenth session at United Nations Headquarters from 5 to 15 April 1993. The Commission held 11 meetings (1st to 11th).

2. The session was opened by the temporary Chairman, Mr. Albert Muchanga (Zambia).

3. The Director of the Transnational Corporations and Management Division of the Department of Economic and Social Development made an opening statement.

B. Attendance

4. The following States members of the Commission attended the session: Algeria, Argentina, Bahamas, Bangladesh, Belarus, Belgium, Benin, Bulgaria, Burundi, Chile, China, Colombia, Congo, Costa Rica, France, Gabon, Germany, Ghana, Guatemala, India, Indonesia, Italy, Jamaica, Japan, Kenya, Malaysia, Mexico, Netherlands, Pakistan, Peru, Poland, Republic of Korea, Romania, Russian Federation, Swaziland, Sweden, Switzerland, Thailand, Tunisia, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay, Zambia and Zimbabwe.

5. The following expert advisers attended the session: Antonio Colombo (Italy), Peter Hansen (Denmark), Ivan Ivanov (Russian Federation), Samuel Esson Kwesi Jonah (Ghana), Gösta Karlsson (Sweden), Sanjaya Lall (India), Jacques Leflon (France), Lim Kee-Ming (Singapore), Sylvia Ostry (Canada), Rudolf A. Oswald (United States of America), Edward J. Saperstein (United States of America) and Osvaldo Sunkel (Chile).

6. The following experts attended the session: Michael Hershman, Henry Parker, Ibrahim Shihata and Paolo Scolari.

7. The following States Members of the United Nations were represented by observers: Australia, Canada, Côte d'Ivoire, Czech Republic, Denmark, Ecuador, Egypt, Gambia, Hungary, Iran (Islamic Republic of), Kazakhstan, Kyrgyzstan, Libyan Arab Jamahiriya, Malawi, Mali, Philippines, Portugal, Rwanda, Sierra Leone, Slovakia, Turkey and Venezuela.

8. The following regional commissions were represented: Economic Commission for Africa, Economic Commission for Latin America and the Caribbean and Economic and Social Commission for Asia and the Pacific.

9. The following specialized agencies were represented: International Labour Organisation, United Nations Educational, Scientific and Cultural Organization and World Bank.

10. The following intergovernmental organizations were represented by observers: Asian-African Legal Consultative Committee and Organisation for Economic Cooperation and Development.

11. The following non-governmental organizations in consultative status with the Economic and Social Council, category I, were represented: International Chamber of Commerce and International Confederation of Free Trade Unions.

C. Election of officers

12. At the 1st meeting, on 5 April 1993, the Commission elected the following officers by acclamation:

Chairman: René Valéry Mongbe (Benin)

Vice-Chairman: Ioan Barac (Romania)

Rapporteur: Rosa Carmina Recinos-Hernández (Guatemala)

13. At the same meeting, the Commission decided to postpone the election of the remaining two Vice-Chairmen to a later meeting.

14. At the 8th and 10th meetings, on 12 and 14 April, the Commission elected Faizullah Khilji (Pakistan) and Lisette van Horebeek (Belgium) Vice-Chairmen by acclamation.

D. Agenda

15. At the 1st meeting, on 5 April 1993, the Commission adopted the provisional agenda contained in document E/C.10/1993/1. The agenda was as follows:

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. General discussion on transnational corporations in the world economy and trends in foreign direct investment in developing countries.

4. Role of transnational corporations in the newly opened economies of Central and Eastern Europe.

5. Transnational corporations in services, including banking.

6. International, regional and bilateral arrangements and agreements relating to transnational corporations.

7. Activities of the Transnational Corporations and Management Division and its joint units.

8. Provisional agendas for the twentieth and twenty-first sessions of the Commission.

9. Adoption of the report of the Commission on its nineteenth session.

Annex

DOCUMENTS BEFORE THE COMMISSION AT ITS NINETEENTH SESSION

Document symbol	Agenda item	Title or description
E/C.10/1993/1	2	Provisional agenda
E/C.10/1993/2	3	Trends in foreign direct investment: report of the Secretary-General
E/C.10/1993/3	3	Growth of foreign direct investment in the 1980s - Trend or bulge?: report of the Secretary-General
E/C.10/1993/4	3	Emergence of integrated international production: report of the Secretary-General
E/C.10/1993/5	4	Foreign direct investment in the newly opened economies of Central and Eastern Europe: report of the Secretary-General
E/C.10/1993/6	5	Issues related to the liberalization of foreign direct investment in services: report of the Secretary-General
E/C.10/1993/7	7	Follow-up to the United Nations Conference on Environment and Development as related to transnational corporations: report of the Secretary-General
E/C.10/1993/8	6	International framework for transnational corporations: report of the Secretary-General
E/C.10/1993/9	7	Implementation of the United Nations programme on transnational corporations: report of the Secretary-General
E/C.10/1993/10	7	Experience gained in technical cooperation activities involving privatization and foreign investment: report of the Secretary-General
E/C.10/1993/11	3, 7	The universe of transnational corporations: report of the Secretary-General
E/C.10/1993/12	7	Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eleventh session

Document symbol	Agenda item	Title or description
E/C.10/1993/13	7	Role of transnational corporations in South Africa: report of the Secretary-General
E/C.10/1993/13/Add.1	7	List of transnational corporations with interests in South Africa: report of the Secretary-General
E/C.10/1993/L.1	2	Status of documentation for the session: note by the Secretariat
E/C.10/1993/L.2	3	Peru: draft resolution
E/C.10/1993/L.3 and Add.1-4	9	Draft report of the Commission
E/C.10/1993/L.4	6	Australia: draft resolution
E/C.10/1993/L.5	7	Colombia (on behalf of the States Members of the United Nations that are members of the Group of 77): draft decision
E/C.10/1993/L.6	3, 4, 5, 6, 7	Colombia (on behalf of the States Members of the United Nations that are members of the Group of 77): draft resolution
E/C.10/1993/L.7	7	Draft decision submitted by the Vice-Chairman of the Commission, Mr. Ioan Barac (Romania), on the basis of informal consultations
E/C.10/1993/L.8	3, 4, 5, 6, 7	Draft resolution submitted by the Vice-Chairman of the Commission, Mr. Ioan Barac (Romania), on the basis of informal consultations
E/C.10/1993/L.9	8	Provisional agendas for the twentieth and twenty-first sessions of the Commission

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